Pre and Post Merger Performance of Commercial Banks in India

(A Comparative Study among Indian Public Sector, Private Sector and Foreign Banks)

A

Synopsis

Submitted For the Registration of

Degree of Doctor of Philosophy

In Accountancy and Law

(Commerce)

UNDER THE SUPERVISION OF

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Introduction

Merger is also defined as amalgamation. Merger simply refers to mix of two or more companies and form a new company The parent company acquires all the assets as well as liabilities of the merged company or companies. Generally, the parent company is the buyer, which retains its identity, and the holding company is the seller. All assets, liabilities and the stock of one company are transferred to Transferee Company and made payment in the form of purchase consideration:

A. Equity shares in the transferee company
B. Debentures in the transferee company
C. Cash

Merger

It is a financial tool that is applied for enhancing long-term profitability by expanding their business operations. Mergers occur when the merging companies have their mutual consent as different from acquisitions, which can take the form of a hostile takeover. Managers are concerned with improving operations of the company, managing the affairs of the company effectively for all round gains and growth of the company which will provide them better deals in raising their status, perks and fringe benefits.

Acquisition

It is kind of situation in which target company is acquired by any other company. Acquirer Company can continue as separate entity .Main aim behind this is to gain controlling interest in acquired company. Assets of the target are then integrated into the buying company.

Merger and acquisition in global scenario

Cross-border M &As are one mode of entry for foreign direct investors to host economies. The ownership advantage, location advantage and internalization advantage, factors such as the search for market power, efficiency gains through synergies, size, diversification, and financial motivations affect the decision of firms to undertake cross-border M &As. Organizations which aspire to expand across geographies are funding their cross-border acquisitions through a mix of

local and foreign financing. Theoretically, consolidation can be with two basic motives. One, a motive to maximize value for stakeholders and two, non-value maximizing motives. In a perfect capital market all activities of any company will be to maximize shareholder value. In reality, value maximization comes from cost reduction or revenue growth.

Introduction to Indian Banking Sector

The Indian banking sector is one of the important sector which has a vital role in national development of any economy. It has a unique or very special place in Indian economy. Economic development of the country depends on the soundness of the banking system of any country. Indian banks are the dominant financial institutions and have made better progress during the global financial crisis. It can be seen from its annual credit growth, profitability and trends in Non- performing assets NPAs.

Mergers and Acquisition in Indian Banking Sector

The Banking system of India started in 1770 and the first Bank was the Indian Bank known as the Bank of Hindustan. Later on, some more banks like the Bank of Bombay-1840, the Bank of Madras-1843 and the Bank of Calcutta-1840 were established under the charter of British East India Company. These Banks were merged in 1921 and took the form of a new bank known as the Imperial Bank of India. For the development of banking facilities in the rural areas the Imperial Bank of India partially nationalized on 1 July 1955, and named as the State Bank of India along with its 8 associate banks (at present 7). Later on, the State Bank of Bikaner and the State Bank of Jaipur merged and formed the State Bank of Bikaner and Jaipur. The Indian Banking Industry shows a sign of improvement in performance and efficiency after the global crisis in 2008-09. The Indian Banking Industry is having far better position than it was at the time of crisis. Government has taken various initiatives to strengthen the financial system. The economic recovery gained strength on the back of various monetary policy initiatives taken by the Reserve Bank of India.

The Regulatory Framework for M&A in Banking

The legal framework for amalgamation or merger between two banks, without considering business and its capital adequacy is the end result of sequential work groups that are operated

under R.B.I.The legal framework for M&As in the banking sector is laid down in the Indian Banking Regulation (BR) Act, 1949.

The Act provides for two kinds of amalgamations which are as follows

(i) Voluntary Amalgamation

(ii) Compulsory Amalgamation

(1) Voluntary amalgamation (Section 44A of the BR Act)

States that the systematic plan of amalgamation of a banking company with another banking company which is approved by the majority of voting rights of board of directors of both the banking companies and also subsequently by the two-thirds shareholders (in value) of both the banking companies. Then the plan can be submitted to the Reserve Bank for sanction. However, the Reserve Bank has the discretionary powers to approve the voluntary amalgamation of two banking companies under section 44A of the BR Act.

2). Compulsory Amalgamation

Compulsory amalgamations are concerned from induced or forceful merger by the Reserve Bank under Section 45 of the BR Act, in public interest, or in the interest of the depositors of a distressed bank/ unsound bank, or to secure proper management of a banking company, or in the interest of the banking system. In the case of a banking company in financial distress or financial unsound, The Reserve Bank **under Section 45(2) of the BR Act** may apply to the Central Government for an order of temporary stopping in respect of a banking company and during the period of such moratorium, may prepare a systematic plan for amalgamation of the banking company with any other banking institution. BR Act requiring any banking institution to obtain prior approval of the Reserve Bank before acquiring any other business or any merger or amalgamation of any other business of banking institution or non-banking financial institution, **with absolute right to the Reserve Bank to finalize** the swap ratio which should be made binding on all concerned.

Review of Literature

International Reviews

S.No	Year	Author Name	Title of Paper	Objectives	Findings
1.	2015	Daniel W. Collins and Richard Mergenthaler	Financial Statement Comparability and the Efficiency of Acquisition Decisions	To know the firms financial statements exhibit greater comparability with industry peer firms.	Study reveals that comparability when acquirers' ex-ante information asymmetry is higher, acquirers operate in volatile operating environments, and management knows relatively less about the target
2.	2014	Qamar Abbas, Ahmed and Rashid Saeed,	Analysis of Pre and Post Merger and Acquisition Financial Performance of Banks in Pakistan	To assess the impact of M&A on the financial performance of banks in Pakistan.	Study reveals that pre and post merger performance of selected banks in Pakistan indicates indirect variations
3.	2014	Sana Tauseef And Mohammed Nishat	Wealth Effect of Mergers & Acquisitions in an Emerging Market(A Case Study of Pakistan's Banking Sector)	To know the impact announcement of (M&As) in the banking sector of Pakistan	The cumulative abnormal returns (CARs) range from significant positive to significant negative.
4.	2013	Dr. Aamir Rafique and Muhammad Usman	Impact of Merger and Acquisitions on Stock Returns: A Case of Financial Sector Firms of Pakistan	To catch the effect of mergers and acquisitions on stock returns for the immediate time after the event occurred	The study indicates that in long run and short run period shows decline effect on return to shareholder in case of merger and acquisitions.

National Reviews on Literature

S.No	Year	Author Name	Title of Paper	Objectives	Findings
1.	2015	Dr.Deepa Joshi, and Garima Joshi,	Study On The Impact Of Mergers And Acquisitions On Efficiency Of Performance Of Indian Banks	To compare and analyze the pre merger and post merger financial statements of the acquirer banks for different years	It drives the organization to create synergy and value creation by way of diversification and improved management

2.	2015	Neha Duggal	Mergers and acquisitions in India: A case Study on Indian Banking Sector	Analyzing The Change In The Financial Performance Post Merger Activity In Indian Banking Sector	Overall study shows that merger shows the positive impact on the basis of net profit and return on capital employed but there is least change occurs in earning per share and return to total assets ratio during post merge
3	2014	Prof. Ritesh Patel	Pre-Merger and Post-Merger Financial & Stock Return Analysis: A Study with reference to selected Indian Banks	To check that whether is any improvement in financial & stock return in banks in post-merger period.	Study has revealed that overall impact of merger and acquisition is positive on the Indian banking sector.
4.	2013	Dr.S.Nirmala	Financial Performance Of Mergers And Acquisitions Of Select Banks In India	To evaluate the pre and post merger financial performance of the acquirer and target	The study found that the shareholders of the acquirer companies increased their financial performance after the merger Event.
5.	2012	M.C. Sharma and Mahima Rai	Post merger performance of Indian banks	To identified the objectives of mergers and acquisition in the Indian Banking sector. To analyzed the financial performance of the merged banks through the model of EVA.	The study concluded that there was positive effect of mergers although it takes some time to show
6.	2011	Akhil Bhan	Mergers In Indian Banking Sector – Motives And Benefits	To study the efficiencies or benefits achieved due to the merger.	The mergers in the banking sector in the post reform period possessed considerable gains which was justified by the EVA of the banks in the post Merger period

Need of the study

Banking sector is key area for the development of Indian economy. Researcher has seen that, most of the studies were based on financial performance, profitability, trend analysis have not due importance. This study emphasis on pre and post merger performance of selected Indian commercial banks. It is affected the productivity, profitability & efficiency of the banks to a large extent. The impact of mergers resulted in change in profitability i.e. ROCE (Return on Capital Employed), RONW (Return on Net Worth), PM (Profit Margin) & other financial ratio is compared the performance of pre-merger & post-mergers period.

Objective of the Study

1. To study and analyze the concept, trends and legal framework of M&A's of the selected Commercial Banks in India.
2. To find out and analyze the Performance of the selected Commercial Banks in India before (pre merger) and after (post merger) merger.
3. To make a comparative study of the Financial Performance of the selected Commercial Banks in India before (pre merger) and after (post merger) Merger.
4. To know the impact of merger and acquisition on the Financial Performance of the selected Commercial Banks in India.

Hypotheses

The Proposed Research Study is based on four Null Hypotheses. These are as follows

H_{O1}: There is no significant impact of merger and acquisition on Profitability of selected Commercial Banks in India

Ho_2: There is no significant impact of merger and acquisition on Liquidity of selected Commercial Banks in India

H_{O3}: There is no significant impact of merger and acquisition on Capital Adequacy of selected Commercial Banks in India

Ho_4: There is no significant impact of merger and acquisition on Operating Performance of selected Commercial Banks in India

Research Methodology

1. Research Design

The study will be descriptive as well as analytical in order to achieve specific objectives.

2. Merger period: - 2010-2011 to 2015-2016.

3. Sample Size

For achieving different objectives, One Public Sector bank, Two Private Sector banks and Three Foreign Banks in India will be taken in this research study:

Indian Public Sector Bank

S.No	Acquirer	Target	Year of Merger
1.	State Bank of India (Public sector)	State Bank of Indore (Public sector)	2010

Indian Private Sector Banks

S.No	Acquirer	Target	Year of merger
1.	ICICI Bank Ltd (Private Sector)	The Bank of Rajasthan (Public Sector)	2010
2.	Kotak Mahindra bank (Private Sector)	ING Vysya bank (Private Sector)	2014

Foreign Banks (Operating in India)

S.No	Acquirer	Target	Year of merger
1.	Banco Sabadell	TSB Bank	2015
2.	BNP Paribas	BGZ bank	2014
3.	Deutsche Bank	Deutsche Post Bank	2010

3. Duration of the Study

3 years of pre merger data and 3years of post merger data will be taken my research work.

4. Data Collection

Secondar**y** data will be collected through various publications of Ministry of Finance, Reserve Bank of India (RBI), and Annual Reports of the selected commercial Banks from their websites.

5. Statistical Tools

The following statistical tools will be applied in this research study:

(a).Ratio analysis,

(b).Trend analysis

(c).t-test

Objective Wise Research Methodology

S.No	Objectives	Research Methodology
1.	To study and analyze the concept, trends and legal framework of M&A's of the selected Commercial Banks in India.	This objective will be attain by using trend analysis.
2.	To find out and analyze the performance of the selected Commercial Banks in India before (pre merger) and after (post merger) merger.	This objective will be achieve by computation of financial ratios of pre and post merger data of selected banks
3.	To make a comparative study of the financial performance of the selected Commercial Banks before (pre merger) and after (post merger) merger.	This objective will be achieve by comparing the financial ratios of pre and post merger data of selected banks
4.	To know the impact of merger and acquisition on the financial performance of the selected Commercial Banks	This objective is attain with the help of above objectives

Proposed Plan of Study

Chapter-1	Introduction Review of Literature Profile of selected Commercial Banks in India Research Methodology
Chapter-2	Concept of M&A's Trends of M&A's Legal Framework of M&A's of the selected Commercial Banks in India.
Chapter-3	Analyze the Performance of the selected Commercial Banks in India before (pre merger) and after (post merger) merger.
Chapter-4	Comparative study of the Financial Performance of the selected Commercial Banks before (pre merger) and after (post merger) merger.
Chapter-5	Impact of merger and acquisition on the financial performance of the selected Commercial Banks.
Chapter -6	Findings, Conclusion and Suggestions

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